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BEFORE THE
POSTAL REGULATORY COMMISSION

Periodic Reporting (UPS Proposals One, Two and Three)	))	Docket No. RM2016-2

COMMENTS OF
AMERICAN CATALOG MAILERS ASSOCIATION, INC.,
ALLIANCE OF NONPROFIT MAILERS,
CONTINUITY SHIPPERS ASSOCIATION,
ENVELOPE MANUFACTURERS ASSOCIATION,
GREETING CARD ASSOCIATION,
NATIONAL ASSOCIATION OF PRESORT MAILERS,
PARCEL SHIPPERS ASSOCIATION,
PSI SYSTEMS, INC., AND STAMPS.COM
("MARKET DOMINANT MAILERS")

(January 25, 2016)

I. INTRODUCTION AND SUMMARY

The undersigned parties file these comments pursuant to Order No. 2793 (October 29, 2015). Each sponsor of these comments is a mailer that relies, or whose customers rely, heavily on market-dominant mail or is an association of such mailers, or software or service providers for such mailers. The market-dominant products used by the undersigned parties include First-Class Mail letters and flats, magazines and newspapers, Standard Mail letters and flats, catalogs, Bound Printed Matter, Media Mail, and Library Mail.

This rulemaking was established in response to a petition filed pursuant to 39 C.F.R. § 3050.11 requesting the Postal Regulatory Commission ("Commission") to consider three proposals related to how the Postal Service calculates the costs of its products in its periodic reports, and sets the required contribution from competitive products.[1] The Commission has held consideration of Proposal Three in abeyance until the impact of proposals One and Two (if any) is known. Accordingly, these comments discuss only the Petition and Proposal One and Proposal Two attached thereto.

Proposal One would allocate to individual mail products all variable costs, whether or not those costs are caused by the particular product to which the costs would be allocated, and whether or not the allocated costs are part of the marginal, attributable, or incremental costs of a particular class or product.

Proposal Two would reclassify as variable and attributable about $3.4 billion of FY 2014 costs that the Postal Service and the Commission now classify as institutional, and which Petitioner refers to as "reported fixed costs." In support of this proposal, Petitioner relies on 85 regression models that compare the relationship between mail volume and reported fixed costs over the period from FY 2007 to FY 2014. Each regression relies on only eight data points. None of the regressions include any explanatory variables to test whether any of the changes in costs during the period at issue might have been caused by factors other than mail volume and no operational analysis undergirds any of them.

For the reasons discussed below, the sponsors of these comments urge the Commission to reject both proposals. By no means do we believe that existing Postal Service costing methods and systems are perfect or that they could not be improved. In fact, many of the undersigned mailers have raised issues about cost attribution, cost coverage and numerous other related issues in the past and likely will continue to do so. But Proposals One and Two would be steps in the wrong direction. They are both inconsistent with basic statutory requirements and poorly supported even on their own terms.

[1] Petition of United Parcel Service, Inc. for the Initiation of Proceedings to Make Changes to Postal Service Costing Methodologies, October 8, 2015 ("Petition").

First, while the Petition attempts to justify these proposals as a way to protect users of market-dominant products from having to subsidize competitive USPS products, the proposals could in fact devastate the users of several market-dominant products. Adoption of the two proposals would increase the costs attributed to market-dominant mail and services by an average of *47 percent*, or about $13.4 billion per year. (Indeed, the overall rise in reported attributable costs would be *greater* in both percentage and absolute terms than for competitive products, whose reported attributable costs would increase by only 31 percent, or about $3.4 billion per year). The reported coverage ratios of individual market-dominant products would fall. Several products now covering their reported attributable costs would no longer do so, and reported coverage ratios already below 100 percent would plummet further.

Second, proposals One and Two would violate one of the most basic requirements of postal costing and ratemaking: the requirement of causation. Decades of Commission and judicial precedent recognize that costs may not be attributed to a particular class, product, or other increment of the Postal Service's total mail volume without reliable evidence that the increment of volume at issue causes the costs (in the sense that the costs would be avoided absent the incremental volume). Proposals One and Two abandon that approach. Hence, neither allocation method satisfies the legal standards for cost attribution.

Proposal One would allocate all variable costs to individual mail classes and products without any showing of what share (if any) of those variable costs are actually caused by the increment of volume at issue. For cost components that have some fixed (start-up costs), the costs assigned under Proposal One would equal average variable costs. For cost components that are estimated to have no fixed costs, the costs assigned by Proposal One would equal fully distributed costs—an approach discredited by most economists and rejected by the Commission three decades ago. The proposal attributes to each class and product an allocated share of all costs that vary with the *total* output of all postal products *combined*, regardless of whether the costs vary with the *particular* increment of Postal Service output at issue. This approach ignores the requirement that attributions rest on reliably identified causal relationships between costs *and the particular increment of volume whose costs are being estimated*.[2]

Proposal Two would reclassify several billion dollars of reported fixed costs as variable and attributable based solely on simplistic regression models that include only eight data points and do not even attempt to test for the possibility that some of the changes in these costs between FY 2007 and FY 2014 might have had causes other than changes in mail volume.

II. PROPOSALS ONE AND TWO, IF ADOPTED BY THE COMMISSION, WOULD NOT BENEFIT MARKET DOMINANT MAILERS.

A recurring theme of the Petition and Proposals One and Two is that the proposals would benefit mailers of market-dominant mail products by protecting those mailers from having to subsidize or give a "nearly free ride" to competitive mail products. *See*, *e.g.*, Petition at 5-6, 8, 9; Proposal One at 10, 11, 25; Proposal Two at 5-6; UPS response to CHIR 1, Question 2, at 5-6. The initial filings were vague about the actual effect of the two proposals on the costs attributed to individual market-dominant products. The Commission asked for this information in CHIR 1, Questions 5 and 12.c (Nov. 30, 2015). The responses were eye-opening. They showed that both proposals would massively increase the costs attributed to many individual market-dominant products. UPS Responses to CHIR 1, Questions 5 and 12.c (Dec. 10, 2015).

Drawing on data from the Petition and the responses to information requests, Market Dominant Mailers have calculated the changes in costs that would result from adoption of Proposals One and Two. *See* Attachment I. They are dramatic. The combined data reveal that adoption of Proposals One and Two would increase the costs attributed to market dominant mail and services by

[2] 39 U.S.C. 3631(b).

47 percent, or over $13 billion per year. Indeed, the average increase in cost attribution for market dominant products would be larger in both percentage and absolute terms than the overall increases on competitive products (31 percent and $3.4 billion, respectively).

A number of market dominant-products and types of mail that now cover their reported attributable costs would see their reported coverage ratios fall below 100 percent: First-Class Mail Single-Piece Cards, First-Class Mail Parcels, Standard Mail Carrier Route, and Bound Printed Matter Parcels. Other products with coverage ratios below 100 percent would see the reported shortfalls widen dramatically. It is hard to see how these market dominant products will benefit from adoption of Proposals One and Two.[3]

III. PROPOSALS ONE AND TWO VIOLATE WELL-ESTABLISHED REQUIREMENTS FOR ASSIGNING COSTS TO PARTICULAR MAIL VOLUMES.

A. The Governing Standards.

Before the enactment of the Postal Accountability and Enhancement Act of 2006 ("PAEA"), former 39 U.S.C. § 3622(b)(3) required that "each class of mail or type of mail service bear the direct and indirect postal costs attributable to that class or type plus that portion of all other costs of the Postal Service reasonably assignable to such class or type." This language defined the minimum rate floor; maximum rates were constrained by the Commission pursuant to the other provisions of former Section 3622, and the breakeven requirement (former Section 3621).

[3] It is not a sufficient answer to point to the price cap. While, if they conflict, the price cap does take precedence over 100 percent recovery of attributable cost at the class level, the Commission and the Postal Service are making significant efforts to make the rates for underwater products within classes equal to, or at least closer to, compensatory levels. Thus, severe price increases could result from adoption of Proposals One and Two. And, as noted above, some products now covering attributable cost could fall below it, necessitating yet further efforts on the same lines. For example, using FY2015 CRA values, increasing the reported attributable costs of First-Class Single-Piece Cards by 43 percent (see Response to CHIR No. 1, Q.5, Table 1) would cause reported attributable costs to rise to $359 million, only 98.3 percent of the $353 million in revenue produced by this product.

The PAEA distinguished for the first time between market-dominant and competitive products, and prescribed different pricing standards for each. For market-dominant mail products, the attributable cost floor of former 39 U.S.C. § 3622(b)(3) has been recast as one of the ratemaking factors in current 39 U.S.C. § 3622(c)(2); the maximum rate standards of former 39 U.S.C. § 3622(b) have been replaced with the factors and objectives of 39 U.S.C. § 3622(b) and (c), and a CPI price cap required by 39 U.S.C. §3622(d).

For competitive products, the PAEA has established three price floors, two of which are relevant to Proposals One and Two. First, market-dominant products may not subsidize competitive products. 39 U.S.C. § 3633(a)(1). Second, each competitive product must cover its "costs attributable," a term defined by Congress as "the direct and indirect postal costs attributable to such product through reliably identified causal relationships." 39 U.S.C. §§ 3631(b), 3633(a)(2).

The first decade and a half after the enactment of the Postal Reorganization Act witnessed a prolonged struggle over what measure of cost should be used to define the price floor. A number of parties and the D.C. Circuit supported a requirement that minimum rates cover not only marginal or incremental costs but also a pro rata allocation of systemwide costs. In *Nat'l Ass'n of Greeting Card Publishers v. USPS*, 462 U.S. 810 (1983) ("*NAGCP IV*"), however, the Supreme Court held that the Commission was free to set price floors as low as attributable cost. *Id*. at 823-25. Moreover, the Court held, the Commission "acted consistently with the statutory mandate and Congress' policy objectives" by defining attributable costs without using "distribution keys or other accounting principles lacking an established causal basis." *Id*. at 823-29.

Since *NAGCP IV*, the Commission has repeatedly reaffirmed that costs may not be attributed to individual mail products without "reliable causal relationships." *See*, *e.g*., R84-1 Op. & Rec. Decis. (Sept. 7, 1984) at 118-19, 131, 154-56, *aff'd*, *Direct Marketing Ass'n v. USPS*, 778 F.2d 96 (2d Cir. 1985).

The PAEA codified this requirement into law by forbidding the attribution of any costs to either market-dominant and competitive classes or products without a showing of "reliably identified causal relationships" between the costs and the particular volumes to which they are attributed. 39 U.S.C. §§ 3622(c)(2) and 3631(b).

The legislative history behind these provisions underscores their import. The House Report on H.R. 22, the original House-passed bill, states:

> In addressing the attributable costs, the Commission should continue to focus on the need to have reliable indicators of cost causality. This committee heard testimony from different viewpoints, with some urging a higher attribution of costs. The goal of the Commission should be a technically correct result, placing accuracy above achieving a particular outcome of higher or lower attribution.

H.R. Rep. No. 109-66, pt. 1 at 49 (2005).

The Senate report on the corresponding Senate bill, while expressing a desire that cost attribution techniques could be improved, made clear that the Committee was not proposing to change the attribution standard:

> While considering this legislation the Committee heard testimony suggesting that currently accepted levels of cost attributions were both too low and too high, and that specific rules for cost attribution should be incorporated into law. The Committee has decided that the technical decision of what cost analysis methodologies are sufficiently reliable at any given time to form the basis for attribution should be left to the Postal Regulatory Commission, acting with benefit of counsel from all interested persons in open public proceedings. . . The NAGCP Court rejected a contention that it was appropriate to make classes responsible for the recovery of costs for which an extended inference of causation was claimed. It emphasized the need for reliable indicators of causality without specifying any specific method for identifying causality. Governed by this ruling since 1982, *the Postal Rate Commission must have*

> *reasonable assurance that any costs attributed to a class of mail are incurred as a result of providing that class of mail. The Committee finds no reason for changing this standard.*

S. Rep. No. 108-318, 108th Cong., 2d Sess. 9-10 (2004) (emphasis added).

In 2014, the Commission contracted with Prof. John C. Panzar to assess whether the Commission's existing measures of attributable and incremental costs implemented the statutory cost floors of 39 U.S.C. §§ 3622 and 3633 in an economically sound fashion. Professor John C. Panzar, "The Role of Costs for Postal Regulation" (2014) (available at www.prc.gov/sites/default/files/reports/J%20Panzar%20Final%20093014.pdf). Dr. Panzar found that the Commission's measure of attributable costs, because its starting point was a measure of marginal cost, tended to understate incremental costs for cost segments whose marginal costs declined as volume increased. Dr. Panzar also found, however, that this issue had little practical significance because the difference between attributable cost as estimated by the Commission's approved methodology and actual incremental costs was small except when the increment of output at issue was a very large share of the Postal Service's total output. No product comes close to the share of total output where attributable and incremental costs diverge significantly. Panzar Report at 23-25. In short, although the attributable costs derived by the Postal Service from CRA data are imperfect, they are reasonable approximations of the correct cost measures, and the Commission can make the calculations even more precise by using information already available in the CRA data.

It deserves emphasis that today, consistent with Dr. Panzar's analysis, in determining incremental costs, the Commission does not rely solely on the CRA methodology. The Commission includes as incremental costs not only volume variable costs but also specific fixed costs and the portion of inframarginal other costs that can be causally related to a product. Interestingly, this methodology was supported by the sponsor of the Petition in the past.[4]

B. Proposal One violates 39 U.S.C. §§ 3622(b)(3), 3631(b) and 3633(a)(1) and (2) because the proposal allocates to individual mail products costs that have no causal relationship to those products.

Proposal One does not begin to satisfy the requirements, discussed above, that the costs attributed to a class or product must have a reliable causal relationship with the relevant increment of volume, and incremental costs likewise must be limited to the costs that would be avoided if the increment of volume were eliminated. Rather, the proposal is a throwback to the era before the Supreme Court's decision in *NAGCP IV*, when now-discredited costing methods such as "extended cost attribution" and fully distributed costs dominated postal ratemaking. *See Nat'l Ass'n of Greeting Card Publishers v. USPS*, 569 F.2d 570, 583-84 (D.C. Cir. 1976) (summarizing ALJ decision in R74-1); *Nat'l Ass'n of Greeting Card Publishers v. USPS*, 569 F.2d 570, 586-79, 591-93 (D.C. Cir. 1976) ("*NAGCP I*"), *vacated as to other issues*, 434 U.S. 884 (1977) (directing Commission to engage in "extended attribution" of costs through "cost accounting principles" even when the costs were not causally linked to individual classes and were not even "measurably variable").

Dr. Neels' supporting Report for UPS makes this clear. Proposal One is based on Shapley Values. a game theory-based procedure. The question analyzed by Shapley was how to allocate the surplus or payoff generated by a game among the players without causing the demands of individual players to collapse the game. Shapley explained that one possible answer to this question

[4] "We support the Commission's decision to adopt its long-standing method of attribution. Commission Order No. 26 (August 15, 2007), ¶ 3045. The Commission has long interpreted this to include not only volume variable costs, but also specific-fixed costs and any other [sic] non-volume [sic] variable cost that can be causally related to a product. See, e.g., Docket No. R97-1, Commission Opinion and Recommended Decision (May 11, 1998), ¶ 4017." Comments of United Parcel Service on the Treasury Report, PRC Docket No. PI2008-2 (Apr. 1, 2008), at 2.

involved multiple games in which the order of the players was chosen at random. Since then, other economists have shown that that this approach could be used to allocate to individual outputs the economies of scale or scope[5] generated by a multi-output firm: instead of "ordering" the customers so that the incremental demand was treated as incremental (i.e., supplied last), the Shapley approach would "order" the customers at random through multiple games. "The Shapley value calculates *the average of a player's incremental contributions over all possible sequences in which players join the coalition.*" Neels Report at 23. Although the arithmetic grows more complex as the number of "games" increases, the result of the Shapley approach ultimately converges on *average variable costs over the entire range of output*. As Dr. Neels acknowledges, the "Shapley value with respect to inframarginal costs would simply be an average of the inframarginal cost associated with each 'slot.' . . . This is essentially equivalent to using existing distribution keys to attribute inframarginal costs." Neels Report at 27-28. Indeed, for cost components that have no significant fixed (or start-up) costs, and all costs are variable, the Shapley approach converges to fully distributed cost. Since average variable cost (and fully distributed cost) over the entire range of output both exceed marginal or incremental cost for firms that, like the USPS, tend to have declining marginal costs, the Shapley approach, as advocated by UPS, would produce attributable costs that are well in excess of marginal or incremental costs.

Dr. Neels candidly acknowledges that Shapley costs exceed marginal and incremental costs because the Shapley approach eliminates any "implicit ordering" of the outputs of a multi-product firm—i.e., deliberately avoids assuming that the output being costed is produced last. Indeed, he touts this as a virtue of the Shapley method. Neels Report at 21-23. When costs are estimated based on causal relationships, however, the lack of ordering in the Shapley method is not a virtue but a fatal defect. "Implicit ordering"—i.e., treating

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[5] Note that these quantities are still payoffs or benefits – not operating costs of the hypothesized firm.

the output being costed as the last output, with all other outputs treated as given—is the central principle of marginal, attributable and incremental cost. All three cost measures define costs *ceteris paribus*: they ask what added costs a firm would incur if an extra increment of output were added to the outputs already produced or (what amounts to the same thing) what costs a firm would avoid if output were reduced by specified decrement, but all other outputs continued to be produced.

Professor Panzar explained this clearly in his 2014 report to the Commission:

> The parallel emphasis on the concept of *avoided cost* is particularly important as a guide to intuition. Since costs are frequently "brought into existence" by a number of different products or services, it is possible to get caught up in a "chicken and egg" confusion based upon hypothetical scenarios concerning the *order* in which products were introduced into the firm's portfolio. Indeed, the costs of *adding* a particular product (or group of products) will differ depending on the mix of products already present. However, it is unambiguously clear that the only *added* costs that are equal to *avoided cost* are those that result when the product (or group of products) in question is added *last*. And, that is precisely the cost measured by the economic definition of Incremental Costs . . .

Panzar Report (2014) at 6.

Alfred Kahn made essentially the same point more than 40 years earlier. "As far as causal cost responsibility is concerned," he wrote, "*all customers are marginal*." 1 Alfred E. Kahn, *The Economics of Regulation* 140 (1970) (emphasis added). This is true when marginal costs are lower than average variable costs, and when the opposite occurs. *Id*.

Because 39 U.S.C. §§ 3622, 3631 and 3633, as interpreted by the Commission and the courts, limit the attributable and incremental costs of a given increment of output to the costs caused by that output, the Shapley method—like the fully distributed cost methods that the Commission consigned to the regulatory dustbin after *NAGCP IV*—is flatly inconsistent with the statute.

The Shapley procedure cannot be squared with the requirements of sections 3622(c)(3), 3631(b). The closest approach to a discussion of the problem in fn. 14, on p. 15 of Proposal One:

> The plain language of PAEA compels the attribution of both "direct and indirect postal costs" that can reliably be attributed to individual *products. 39 U.S.C. §3631(b). As shown above, inframarginal costs are the direct variable costs caused by products for every* product delivered by the Postal Service except for the very last product delivered. Thus, they must be attributed to products. But even if inframarginal costs somehow did not qualify as "direct" costs, PAEA embraces attribution of "indirect" costs as well, demonstrating that Congress intended robust attribution of variable costs to products.

Proposal One at 15 n. 14. The distinction between "direct" and "indirect" costs cannot save the Shapley procedure as a cost attribution technique, however. Costs that would not be avoided by eliminating a given increment of output are not caused by that increment, even indirectly; and without a causal relationship Sections 3622 and 3631 forbid attribution.

Equally illogical is the argument that, because the Postal Service "us[es] the distribution keys to distribute some variable costs to individual products, the Postal Service effectively acknowledges that the keys are sufficiently reliable to attribute variable costs to products 'through reliably identified causal relationships.'" Proposal One at 20. This, however, is a non sequitur.

That the Service uses distribution keys to attribute *some* variable costs to products hardly justifies using distribution keys to distribute *all* variable costs in the same way. The qualifier "some" is necessary because not all *variable* costs are *attributable:* a cost is not attributable to all volume simply because it varies with *some* volume changes. To be attributed to a particular increment of volume the cost must vary with *that* increment. What justifies the attribution is not the distribution key, but the evidence of an underlying causal relationship sufficient to justify the attribution, which in turn justifies the use of a distribution key.[6] Proposal One has it backwards.[7]

C. UPS Proposal Two also violates the causation requirement of 39 U.S.C. §§ 3622(b)(3), 3631(b) and 3633(a)(1) and (2).

UPS Proposal Two also violates the statutory causation requirement, although for different reasons. Proposal Two would require that 37 USPS cost pools now classified as institutional be reclassified as "fully or partially variable," with the variable portion attributed to individual classes and products. To support this result, Proposal 2 relies on 85 regressions that purport to show a correlation between changes in mail volume and changes in reported fixed costs for particular cost components over time between Fiscal Year 2007 and Fiscal Year 2014. The regressions do not come close to providing the reliable identification of causal relationships required by 39 U.S.C §§ 3622(b)(3) and 3631(b).

First, all 85 regressions use simplistic univariate models, with only a single explanatory variable: mail volume. Dr. Neels has not examined the possibility that the changes in Postal Service reported fixed costs between FY 2007 and FY 2014 have resulted in whole or in part from other causes—e.g., changes in relative input prices, changes in technology or productivity, the painful

[6] This distinction is discussed at length in Appendix B to the Commission's Opinion and Recommended Decision in Docket R80-1, at ¶¶ 037 *et seq*., and particularly ¶¶ 046-048. It is also emphasized at ¶¶ 089 et seq., in the discussion of the D.C. Circuit's approach in *National Association of Greeting Card Publishers* v. *U.S. Postal Service,* 569 F.2d 570 (D.C. Cir. 1976) (*NAGCP I*), later disapproved in *National Association of Greeting Card Publishers* v. *U.S. Postal Service,* 462 U.S. 810 (1983) (*NAGCP IV*). While much has changed since Docket R80-1, the distinction between finding a causal relationship between a cost element and a spectrum of products and – once the causal relationship has been found – distributing the cost among the products remains basic.

[7] If the availability of a distribution key, such as pieces or ton-miles, sufficed to justify attribution, all costs, including fixed costs, would be attributable, and the attributable and fully allocated cost of a class or service would be identical. Needless to say, the Commission and the courts have not adopted this nonsensical interpretation.

restructuring required to survive the 2007-2009 recession, deferred maintenance and investments, accounting adjustments, or other underlying trends—because his regression models lacked any explanatory variables for these or any other potential confounding causes.

Second, each regression used only eight data points—one for each year. Regression results based on such tiny data sets are certainly too unreliable to take seriously. Unsurprisingly, many of the regressions do not yield statistically significant coefficients.[8]

Third, Proposal Two limited its regression analysis to cost components that are currently classified as fixed. The possibility that cost components now treated as volume variable might have "hidden fixed" costs thus was not explored.

For these reasons, rates based on Proposal Two would violate the causal relationship requirement of PAEA.

IV. NOW IS NOT THE TIME TO EXPERIMENT WITH RADICAL CHANGE, SUCH AS PROPOSED IN THE PETITION; INCREMENTAL CHANGES SHOULD CONTINUE.

By law the Commission must begin soon an examination of the system of rates and classifications governing market-dominant products.[9] While the scope of that review is yet to be fully defined, it must address whether the existing system is achieving the objectives and factors in subsections (b) and (c) of

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[8] Dr. Neels' proposed remedy – to accept them as motivating an increase in the appropriate share of institutional costs to be contributed by the competitive sector – is not before the Commission, so we do not discuss it.

[9] "REVIEW. —Ten years after the date of enactment of the Postal Accountability and Enhancement Act and as appropriate thereafter, the Commission shall review the system for regulating rates and classes for market-dominant products established under this section to determine if the system is achieving the objectives in subsection (b), taking into account the factors in subsection (c). If the Commission determines, after notice and opportunity for public comment, that the system is not achieving the objectives in subsection (b), taking into account the factors in subsection (c), the Commission may, by regulation, make such modification or adopt such alternative system for regulating rates and classes for market-dominant products as necessary to achieve the objectives." 39 US.C. 3622(d)(3).

section 3622, including section 3622(b)(3) and its predecessor which, as explained above, has long guided cost attribution methods.[10] To abandon existing methodologies, which have been carefully developed and understood over many years in accordance with accepted economic theory and principles, in favor of methodologies that are untested and will radically alter cost and perhaps price relationships, suggesting instances of cross subsidization heretofore not imagined, is not required by law and is certainly not desired by Market Dominant Mailers.

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[10] For example, section 3622 requires the system to be designed to achieve the following objectives:

- To create predictability and stability in rates.
- To allow the Postal Service pricing flexibility.
- To assure adequate revenues, including retained earnings, to maintain financial stability.
- To reduce the administrative burden and increase the transparency of the ratemaking process.
- To establish and maintain a just and reasonable schedule for rates and classifications, however the objective under this paragraph shall not be construed to prohibit the Postal Service from making changes of unequal magnitude within, between, or among classes of mail.
- To allocate the total institutional costs of the Postal Service appropriately between market-dominant and competitive products.

The factors include:

- the value of the mail service actually provided each class or type of mail service to both the sender and the recipient, including but not limited to the collection, mode of transportation, and priority of delivery;
- the requirement that each class of mail or type of mail service bear the direct and indirect postal costs attributable to each class or type of mail service through reliably identified causal relationships plus that portion of all other costs of the Postal Service reasonably assignable to such class or type;
- the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters;
- the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal Service;
- simplicity of structure for the entire schedule and simple, identifiable relationships between the rates or fees charged the various classes of mail for postal services;
- the importance of pricing flexibility to encourage increased mail volume and operational efficiency;
- the need for the Postal Service to increase its efficiency and reduce its costs, including infrastructure costs, to help maintain high quality, affordable postal services.

For the complete list objectives and factors *see* 39 U.S.C 3622(b) and (c).

CONCLUSION

The undersigned parties will continue to encourage and, if warranted, support changes in existing postal cost systems and methodologies that improve the measurement and distribution of costs. We support efforts to make more use of technology, such as the Intelligent Mail barcode, to more accurately and affordably measure and track costs.

Proposals One and Two, however, lack merit, whether considered from the legal or the economic point of view. Accordingly, we strongly support maintaining the current understanding and application of the term "costs attributable." The Commission should reject Proposals One and Two as presented in the Petition.

Respectfully submitted,

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ATTACHMENT I

FY 2014 Cost, Revenue, and Cost Coverage by Product (Millions of Dollars)

Mail Class/Product	Attributable Cost					Revenue	Cost Coverage	
	FY 2014 CRA	Impact of RM2016-2 Proposals		W/ Proposals 1 & 2	% Increase			
		Proposal 1	Proposal 2				FY 2014 CRA	W/ Proposals 1 & 2
	[1]	[2]	[3]	[4]=[1]+[2]+[3]	[5]=([4]-[1])/[4]	[6]	[7]=[6]/[1]	[8]=[6]/[4]
Market Dominant Products								
Single-Piece Letters	$5,710	$2,593	$526	$8,829	55%	$10,129	177%	115%
Single-Piece Postcards	$267	$115	$27	$409	53%	$319	120%	78%
Total Single-Piece Letters and Cards	**$5,977**	**$2,708**	**$552**	**$9,237**	**55%**	**$10,448**	**175%**	**113%**
Presort Letters	$4,560	$1,853	$429	$6,842	50%	$14,630	321%	214%
Presort Cards	$184	$79	$18	$281	53%	$559	303%	199%
Total Presort Letters and Cards	**$4,744**	**$1,932**	**$448**	**$7,124**	**50%**	**$15,189**	**320%**	**213%**
Flats	$1,566	$431	$140	$2,137	36%	$2,492	159%	117%
Parcels	$543	$179	$49	$771	42%	$591	109%	77%
First-Class NSAs	$13			$13	0%	$39	310%	310%
Outbound Single-Piece International	$188			$188	0%	$308	163%	163%
Inbound Single-Piece International	$249			$249	0%	$175	70%	70%
Total First-Class	**$13,280**	**$5,250**	**$1,189**	**$19,719**	**48%**	**$29,408**	**221%**	**149%**
High-Density and Saturation Letters	$370	$211	$42	$623	68%	$880	238%	141%
High-Density ad Saturation Flats and Parcels	$881	$385	$103	$1,369	55%	$2,006	228%	146%
Every Door Direct Mail Retail	$39	$29	$4	$72	84%	$149	379%	206%
Carrier Route	$1,686	$543	$190	$2,419	43%	$2,364	140%	98%
Letters	$4,895	$2,148	$488	$7,531	54%	$9,818	201%	130%
Flats	$2,497	$556	$246	$3,299	32%	$2,037	82%	62%
Parcels	$103	$23	$9	$135	31%	$68	66%	51%
Standard Mail NSAs	$63			$63	0%	$118	187%	187%
Total Standard Mail	**$10,534**	**$3,895**	**$1,083**	**$15,512**	**47%**	**$17,497**	**166%**	**113%**
In County	$86	$27	$10	$123	43%	$67	78%	54%
Outside County	$2,049	$478	$199	$2,726	33%	$1,552	76%	57%
Total Periodicals	**$2,134**	**$505**	**$209**	**$2,848**	**33%**	**$1,625**	**76%**	**57%**
Alaska Bypass	$16			$16	0%	$33	202%	202%
Inbound Surface Parcel Post (at UPU Rates)	$13			$13	0%	$18	140%	140%
Bound Printed Matter Flats	$134	$38	$12	$184	37%	$202	150%	110%
Bound Printed Matter Parcels	$251	$86	$23	$360	43%	$272	108%	76%
Media and Library Mail	$328	$95	$25	$448	37%	$308	94%	69%
Total Package Services	**$743**	**$219**	**$59**	**$1,021**	**37%**	**$836**	**113%**	**82%**
International NSAs	$143		$0	$143	0%	$164	115%	115%
Free Mail - blind, handicapped & servicemen	$40	$9	$4	$53	33%	$0		
Total Market Dominant Mail	**$26,874**	**$9,877**	**$2,544**	**$39,295**	**46%**	**$49,530**	**184%**	**126%**
Total Domestic Ancillary Services	$905			$905	0%	$1,354	150%	150%
Total International Ancillary Services	$13			$13	0%	$41	321%	321%
Total Special Services	$413			$413	0%	$665	161%	161%
Total Market Dominant Services	$1,331	$840	$105	$2,276	71%	$2,060	155%	91%
Total Market Dominant Mail and Services	**$28,205**	**$10,717**	**$2,649**	**$41,571**	**47%**	**$51,590**	**183%**	**124%**
Competitive Products								
Total Priority Mail Express	$366	$124	$30	$520	42%	$760	208%	146%
Total First-Class Package Service	$1,155	$302	$97	$1,554	35%	$1,462	127%	94%
Total Ground	$2,472	$837	$217	$3,526	43%	$3,160	128%	90%
Total Priority Mail	$5,234	$1,204	$380	$6,818	30%	$6,884	132%	101%
Total Competitive International	$1,385	$219		$1,604	16%	$2,319	167%	145%
Total Domestic Competitive Services	$359	$2	$1	$362	1%	$695	194%	192%
Total Competitive Mail and Services	**$10,970**	**$2,688**	**$725**	**$14,383**	**31%**	**$15,280**	**139%**	**106%**
TOTAL ATTRIBUTABLE COSTS	**$39,175**	**$13,406**	**$3,374**	**$55,955**	**43%**	**$66,870**	**171%**	**120%**

[1],[6] USPS-FY14-1, FY 2014 Public Cost and Revenue Analysis Report (Filed December 29, 2014)

[2] UPS Response to Chairman's Information Request No. 1, Page 22 (Response to Question 5)

[3] UPS Response to Chairman's Information Request No. 1, Page 41 (Response to Question 12(c))